

Agenda

Environmental Protection Commission ELECTRONIC MEETING

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Dec. 1994
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December 5, 1994

1:30 PM

Wallace State Office Building, Fourth Floor

Agenda topics

1. Economic Impact Statement for Proposed Water Supply Fee Rules--Chapters 40 & 43 Allan Stokes (Decision)



TERRY E. BRANSTAD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES
LARRY J. WILSON, DIRECTOR

MEMORANDUM

DATE: November 28, 1994

TO: Environmental Protection Commission
FROM: Larry J. Wilson

RE: Economic Impact Statement for Proposed Water Supply Fee Rules

Attached is a copy of the economic impact statement that we discussed at the November 1994 Commission meeting. This economic impact statement was prepared in response to the directive received by the Administrative rules Review Committee of the Iowa Legislature.

Please review this immediately and let me know if you have any questions or comments.

IOWA DEPARTMENT OF NATURAL RESOURCES

ECONOMIC IMPACT STATEMENT **FOR** **PROPOSED WATER SUPPLY FEES**

November 28, 1994

SECTION 1. SUMMARY

This economic impact statement was prepared in response to the directive received by the Administrative Rules Review Committee of the Iowa Legislature. This economic impact statement assesses the impact of the proposed changes to Chapter 40, "Scope of Division -- Definitions -- Forms -- Rules of Practice," and Chapter 43, "Water Supplies - - Design and Operation," Iowa Administrative Code. The rule amendments have been proposed to implement provisions of Senate File 2314, the appropriations bill for the Department of Agriculture and the Department of Natural Resources.

The proposed amendments contain new fee structures that revise the existing rules for the assessment of fees for water supply operation and construction permits. The proposed fee structures are anticipated to generate the funds authorized by 1994 Iowa Acts, Senate File 2314, Section 48.

The Iowa General Assembly recognized that additional resources are needed by the DNR drinking water program to retain primary implementation responsibility for the Safe Drinking Water Act. SF 2314 increased the general fund appropriation for the program and established a Water Quality Protection Fund. The legislation allowed for construction permit fees and operation fees based on the type and size of the public water supply.

The cost of service concept for the proposed fee structure is familiar to water utilities and is one of several alternatives considered. In proposing the cost of service concept for the proposed rules, the DNR recognizes that most of the cost associated with implementing the Safe Drinking Water Act and the reductions in monitoring costs apply to smaller public water supplies. Smaller public water supplies represent approximately 95 % of the public water supplies in Iowa.

The benefits in reduced monitoring cost (cost avoidance) exceed the proposed fees for small public water supplies serving less than 3300 persons. It is estimated that at least \$3.7 million

in monitoring cost avoidance benefits will be received annually by Iowa's public water supplies.

SECTION 2. BACKGROUND

In 1974, the US Congress passed the Safe Drinking Water Act (SDWA). The SDWA was reauthorized in 1986. The SDWA allows Iowa to have primary enforcement responsibility, known as primacy, for public water systems if Iowa: 1) has adopted drinking water regulations consistent with and not less stringent than federal standards; 2) has adopted and is implementing adequate procedures for enforcement of State regulations, including inspections and monitoring; 3) keeps records and makes reports on the above activities; 4) follows the variances and exemption provisions of the Act; and, 5) adopts and implements a plan for emergency circumstances.

The Iowa Department of Natural Resources (DNR) has had primacy for the drinking water program since 1978. In fact, Iowa has regulated water supplies for over 60 years. From 1978 to 1993, the DNR managed to meet all of the requirements of EPA for primacy.

In November 1993, EPA informed the DNR that the drinking water program was insufficiently staffed and that if staffing were not increased to meet EPA's minimum requirements, primacy would be withdrawn.

Under a State administered program, application of standards and requirements may be tailored to specific water supplies rather than the "one size fits all" approach under a federally administered program. This can result in substantial cost savings to Iowa community public water supplies and granting of greater flexibility to water supply operators, while continuing to ensure the safety of Iowa's public drinking water systems. As a result, representatives of local governments and public water supply operators supported legislation that would provide needed additional resources, in part, through a permit fee system. The result was enactment of Senate File 2314 which provided the funds necessary to increase the resources to maintain primacy of the drinking water program.

SECTION 3. EXPLANATION OF SF 2314

Senate File 2314, the appropriations bill for the Department of Agriculture and the Department of Natural Resources contained provisions for providing the additional resources needed for the drinking water program.

The important provisions of the bill dealing with the drinking water program are that:

1. It is the intent of the General Assembly that Iowa retain primacy of the drinking water program.
2. Fee rules are to be adopted by December 31, 1994.
3. The sections of the law dealing with primacy became effective when it was signed by the Governor.
4. DNR is to establish programs to assist public water supplies by providing technical assistance and advice and by performing vulnerability and viability studies.
5. DNR may contract with persons to provide assistance and services if it can be done in a cost effective manner and ensures compliance. Money is to come from the Public Water Supply System (PWSS) Account.
6. The Water Quality Protection Fund is created under the control of DNR;
 - Money appropriated from General Fund, fees, and other moneys go into this fund.
 - The fund has two accounts: the Administrative Account and the PWSS account.
7. The Administrative Account is to be used for carrying out the requirements of the SDWA.
8. In addition to the permit fees, the bill called for \$404,000 in general fund moneys and \$300,000 in lottery moneys to be used for the drinking water program. With these additional funds, the DNR is to add 15 FTEs to the drinking water program.
9. The Environmental Protection Commission (EPC):
 - Is to adopt fees for construction, installation or modification of PWS;
 - Is to adopt fees for operation permits (fees may be based on type and size of community);
 - Shall adopt a fee schedule; and,
 - Shall calculate fees to produce:

Amount	Fiscal Year
\$475,000	1995
700,000	1996
900,000	1997
1,200,000	1998 and on

10. For FY 1995 - \$25,000 of the fees are to go to the Administration Account and \$450,000 into the PWSS account.
11. For FY 1996 and thereafter, one-half of the fees go into the Administration Account and one-half go into the PWSS Account.
12. The DNR is to develop private-public partnerships to provide technical assistance including vulnerability and viability studies. Technical assistance priorities are to water supplies serving 7000 or less people. Two full time equivalents (FTEs) are allocated to provide technical assistance to these systems.
13. The DNR is to provide an estimate, by May 1st each year, of the anticipated revenue so that fees may be adjusted. Each November 1st, the DNR must report on the amount of money deposited in, and expended from, each account, and provide a projection of revenues, expenditures, obligated moneys and the balance that will remain at the end of the fiscal year.

SECTION 4. DEVELOPMENT OF FEES

Fees for operation and construction permits were originally adopted in 1982. The population and category of public water supply were the criteria used to calculate fees for operation permits. The construction permit fee was based on the part of the public water supply that was being constructed, i.e. distribution system, treatment units, or new water supply well.

Annual Operation Fee

The DNR looked at the following funding mechanisms to allocate the annual operation fees.

1. NUMBER PEOPLE SERVED
2. NUMBER CONNECTIONS
3. AMOUNT OF WATER PUMPED
4. WATER USED PER PERSON
5. NUMBER OF COMMUNITY WATER SUPPLIES (CWS),
NON-TRANSIENT NON-COMMUNITY WATER SUPPLIES (NTNC),
AND TRANSIENT NON-COMMUNITY WATER SUPPLIES (TNC)
6. PERMIT RENEWAL SCHEDULE
7. SOURCE OF WATER
8. FEE FOR SERVICE
9. COST OF SERVICE

10. TYPE OF SYSTEM

The DNR also evaluated the funding mechanisms based on the following factors:

1. EASE OF ADMINISTRATION
2. EASY TO UNDERSTAND BY PUBLIC
3. ANNUAL VS TRIENNIAL FEES
4. ABILITY TO PLACE IN MULTI-YEAR SCHEDULE
5. ABILITY TO ESTIMATE ACCURATELY

In addition, the DNR worked with the Local Government Environmental Resources Council, (LGERC). This newly formed group of associations and elected officials is concerned with the drinking water program and other environmental programs that are the responsibility of the DNR.

Based on the type of funding mechanisms available, the factors to be considered in developing and implementing the fee system, and the direction provided by the LGERC, the DNR developed the proposed fee rules. In developing the proposed rules, the DNR used the following principles:

PRINCIPLES

- FEES SET ON A COST OF SERVICE BASIS
- ALL SYSTEMS TO PAY THE BASE FEE
- PER CAPITA FEE TO BE PAID BY COMMUNITY SYSTEMS SERVING OVER 3300 PERSONS
- THE AMOUNT OF MONEY RAISED BY THE BASE FEE AND THE PER CAPITA FEE ARE TO BE KEPT AT THE SAME RATIO EACH YEAR
- THE CONSTRUCTION PERMIT FEES ARE TO RAISE A TOTAL OF \$75,000 EACH YEAR
- THE NUMBER OF PUBLIC WATER SUPPLIES WOULD DECREASE EACH YEAR

The first principle is key to the issue being raised by both small and large public water systems. Since the DNR devotes a large amount of its resources to inspecting and monitoring small systems, the application of the cost of service principle means that the small public water supplies pay the major portion of the money to be collected by fees. Small systems, those serving under 3300 persons, make up 95% of the public water supplies.

It is important to note that the water supply industry has historically used the cost of service concept. The customers that are getting the most service pay the higher fee. The use of this concept in the proposed rules is consistent with the practices followed by most public water supplies.

The DNR recognized at the beginning of the rule making process that any proposed funding mechanism would generate adverse comments. The Iowa General Assembly did not provide guidance as to the development of the fee rules other than to state: "The fees may be based on the type and size of community served by the system," and to stipulate the aggregate amount of annual revenues to be generated by fees. The DNR believes that the "cost of service" principle is a fair way to establish the fees.

SECTION 5. COST OF PROGRAM TO PUBLIC WATER SUPPLIES

The following three tables provide a comparison of the cost of the annual operation fee with the cost reductions (cost avoidance) that public water supplies are now or will be receiving in the near future.

Table 1 presents the proposed annual operation fee. It breaks down the cost into groupings that readily coincide with the group benefits identified in Tables 2 and 3.

Table 2 represents the cost saving (cost avoidance) that a public water supply can expect to receive. Public water supplies may be unaware of these cost containment efforts being implemented by the DNR since drinking water program compliance costs have increased and will continue to increase in the future due to EPA regulations. The table demonstrates the costs that can be avoided as a result of the DNR's completion of sanitary surveys, issuing monitoring waivers and approving reduced monitoring frequencies.

The annualized cost saving estimated in Table 2 is for systems that obtain all their water from wells which are not under the direct influence of surface water, are not vulnerable to contamination and have no other water quality or operational problems that may effect drinking water quality. It also assumes that the base monitoring requirement is four organic chemical samples every three years.

Table 3 provides the annualized statewide cost savings resulting from monitoring waivers and reduced monitoring requirements.

The additional resources provided by SF 2314 will allow the DNR to extend the waiver program from the four current analytes to as many as twenty and the repeat monitoring frequency from the one sample per three years (used in the above estimates) to as few as one

sample per six years or one sample per nine years. It is estimated that this will allow public water supplies to avoid an additional \$1.4 million in annualized monitoring cost each year beginning in 1998.

TABLE 1 - PROPOSED ANNUAL PERMIT FEE

Type & Size of PWS	Fiscal Year			
	1995	1996	1997	1998
TNC	\$185	295	405	565
NTNC & CWS (serving < 1001 persons)	185	295	405	565
NTNC & CWS (serving 1000 to 3,300 persons)	185	295	405	565
CWS (serving > 3,300 persons)	185 + .04/person*	295 + .06/person*	405 + .08/person*	565 + .11/person*

* Applies to the portion of the population over 3,300 persons.

TABLE 2 - ANNUALIZED COST SAVINGS (COST AVOIDANCE)

Type & Size of PWS	Fiscal Year			
	1995	1996	1997	1998
TNC	\$700	700	700	700
NTNC & CWS (serving < 1001 persons)	3460	3460	3460	1260
NTNC & CWS (serving 1001 - 2500 persons)	1550	1550	1550	1050
(serving 2501 - 3300 persons)	1430	1430	1430	930
CWS (serving 3,301 - 4,100 persons)	1310	1310	1310	810
(serving > 4,100 persons)	1190	1190	1190	690

TABLE 3-ANNUALIZED STATEWIDE COST SAVINGS (COST AVOIDANCE)

Analyte Group	Fiscal Year			
	1995	1996	1997	1998
Bacteria	0.8 million	0.8 million	0.8 million	0.8 million
Inorganic & Organic Chemicals*	2.9 million	2.9 million	2.9 million	0.6 million

* excludes savings from reduced lead and copper monitoring.

Table 4 represents the proposed construction permit fees. The proposed construction permit fee amendment is based on the part of the public water supply being constructed, reconstructed or modified. The fees reflect the cost to the DNR for providing these services.

TABLE 4 - PROPOSED CONSTRUCTION PROJECT PERMIT FEES

Type of Construction	Fee
Distribution System (includes as-built water mains & pump stations)	\$100
Treatment Units per unit process (except projects) submitted pursuant with 43.3(4))	\$100
Simple Chemical Feed pursuant to 43.3(4) a	\$350
Self Contained Treatment Unit pursuant to 43.3(4) b	\$350
Storage Facilities	\$100
New Water Source (includes as-built)	\$350
As Built treatment or storage	\$350
Request for Variances from design standards	\$350

SECTION 6. CONCLUSIONS

Additional resources are needed by the DNR drinking water program to retain primary implementation responsibility for the Safe Drinking Water Act. This need was recognized by the Iowa General Assembly which responded by enacting SF 2314 which increased the general fund appropriation for the program and established a Water Quality Protection Fund. The legislation allowed for construction permit fees and operation fees based on the type and size of the public water supply.

The cost of service concept for the proposed fee structure is familiar to water utilities and is one of several alternatives considered. In proposing the cost of service concept for the proposed rules, the DNR recognizes that most of the cost associated with implementing the Safe Drinking Water Act and the reductions in monitoring costs apply to smaller public water supplies. Smaller public water supplies represent approximately 95 % of the public water supplies in Iowa.

The benefits in reduced monitoring cost (cost avoidance) exceed the proposed fees for small public water supplies serving less than 3300 persons. It is estimated that at least \$3.7 million in monitoring cost avoidance benefits will be received annually by Iowa's public water supplies.

For a comparison with other the surrounding state fees, see Appendix 1.

APPENDIX 1 - SURROUNDING STATES FUNDS GENERATED BY FEES EACH YEAR

Survey of surrounding states Drinking Water Program (From the July, 1993 NCSL Survey Report)

Funding Source	South Dakota	Minnesota	Wisconsin	Illinois
State Budget	\$881,400	\$5,330,000	\$4,361,474	\$5,620,900
EPA Grant	\$484,800	\$1,950,000	\$2,520,800	\$1,914,200
General Fund	\$161,600	\$3,380,000	\$1,840,674	\$1,612,400
Alternative Funding Mechanism-Dedicated	\$235,000	0	0	\$2,067,300
Alternative Funding Mechanism-Not Dedicated	0	\$4,910,000	0	0
Type of Alternative Funding Mechanism (AFM)	Annual Service fee based on Population	Plan Review, Annual Service Connection fee	None	Water Main Permit Application Fee, Operator Certification Fee, Laboratory Service Fee, Solid Waste Management Fee
Revenue raised via AFM	\$235,000	\$4,910,000	0	\$2,067,300

Funding Source	Missouri*	Kansas	Nebraska	Iowa
State Budget	\$2,800,000	\$985,000	\$1,381,438	\$1,255,749
EPA Grant	\$1,000,000	\$535,000	\$781,856	\$941,812
General Fund	\$1,500,000	\$450,000	\$499,582	\$297,937
Alternative Funding Mechanism-Dedicated	\$300,000	0	\$100,000	\$16,000
Alternative Funding Mechanism-Not Dedicated	0	\$459,000	0	\$212,000
Type of Alternative Funding Mechanism (AFM)	Operator Certification fee, Laboratory Services fee	Laboratory Service Fee, Operator Certification fee	Plan Review Fee	Operation Permit fee, Construction Permit fee, Laboratory Certification Fee, Operator Certification Fee
Revenue raised via AFM	\$300,000	\$459,000	0	212,000

*Missouri has implemented a use fee to support the drinking water program.

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EPC Minutes

MINUTES
OF THE
ENVIRONMENTAL PROTECTION COMMISSION
ELECTRONIC MEETING

DECEMBER 5, 1994

WALLACE STATE OFFICE BUILDING
DES MOINES, IOWA

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MEETING MINUTES

CALL TO ORDER

The meeting of the Environmental Protection Commission was held on the fourth floor of the Wallace State Office Building, Des Moines, Iowa, convening at 1:35 p.m. on Monday, December 5, 1994.

MEMBERS PRESENT

Roll call was taken and the following Commissioners were present:

Verlon Britt
William Ehm
Rozanne King, Secretary
Kathryn Murphy
Nancylee Siebenmann, Chair
Terrance Townsend
Clark Yeager, Vice-Chair

MEMBERS ABSENT

Charlotte Mohr
Gary Priebe

ECONOMIC IMPACT STATEMENT FOR PROPOSED WATER SUPPLY FEE RULES-- CHAPTERS 40 & 43

Chairperson Siebenmann stated that the meeting is convened for the purpose of approving the proposed Water Supply Fee rules--Chapters 40 and 43.

Mr. Stokes clarified that staff are not asking for approval of the rules. He reviewed that the Administrative Rules Review Committee (ARC) requested an Economic Impact Statement (EIS) for the rules as they went out on notice. He specified that staff are asking the Commission to approve publishing of the EIS in the ARC bulletin. He related that the Commission is merely being asked to concur that the EIS is a reasonable presentation for publication.

Director Wilson noted that the reason for the electronic meeting is that the information on the EIS for the proposed Water Supply Fee rules was not completed at the time of the regularly scheduled November EPC meeting.

Mr. Stokes added that in order to come as close as possible to the legislative mandate of December 31 for adoption of the rules, and because of the requirement that the EIS be published

15 days prior to the Commission taking action on it, it is necessary to take action on the EIS at this time.

Discussion followed regarding the cost avoidance addressed on page 6, in relation to Table 2.

Mr. Stokes stated that cost avoidance is based on the assumption that if the federal government were to take over the program that they would not grant any waivers or tailor the monitoring requirements to the needs of the facility. He explained that staff estimated what the sampling and monitoring regimen would be under the federal program. They then multiplied the number of samples by an assumption of what the low end of laboratory and analytical costs would be and came up with a figure of what the total cost would be for facilities under the federal regime. In looking at the waivers and tailoring of samples under the State program, using the same cost-per-analysis figure, aggregate savings were figured by using the cost difference in the programs.

Discussion followed regarding waivers for reduced monitoring.

Further discussion took place regarding the amount of fee revenue and related budget.

Clark Yeager questioned the budget for the program, particularly in regard to costs through 1998. He further requested that another page be added to the EIS showing projected figures through 1998.

Motion was made by William Ehm to approve publication of the Economic Impact Statement for Proposed Water Supply Fee Rules--Chapters 40 & 43, with the additional budget information requested by Commissioner Yeager. Seconded by Terrance Townsend. Motion carried unanimously.

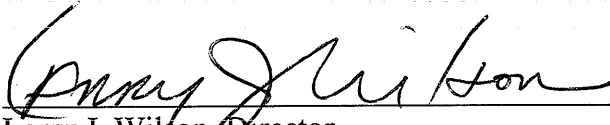
Chairperson Siebenmann requested a roll call vote on the motion. "Aye" vote was cast by Commissioners Murphy, Townsend, Yeager, Britt, Ehm, King, and Siebenmann. Motion carried unanimously.

APPROVED AS AMENDED


Director Wilson stated for the record that the meeting was duly noticed and those present in his office for the meeting include himself, staff members Allan Stokes, Mike Murphy, and recording secretary, Junie Gookin.

ADJOURNMENT

With no further business to come before the Environmental Protection Commission, Chairperson Siebenmann adjourned the meeting at 1:45 p.m., Monday, December 5, 1994.



Larry J. Wilson, Director



Nancylee Siebenmann, Chair



Rozanne King, Secretary

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